

DECEMBER 6, 1982 TWO DOLLARS AND FIFTY CENTS

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Forbes

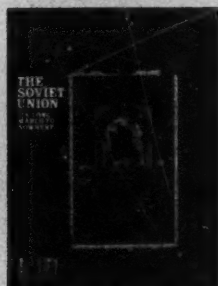
THE SOVIET UNION

ITS LONG
MARCH TO
NOWHERE



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December 6, 1982
Volume 130,
Number 12



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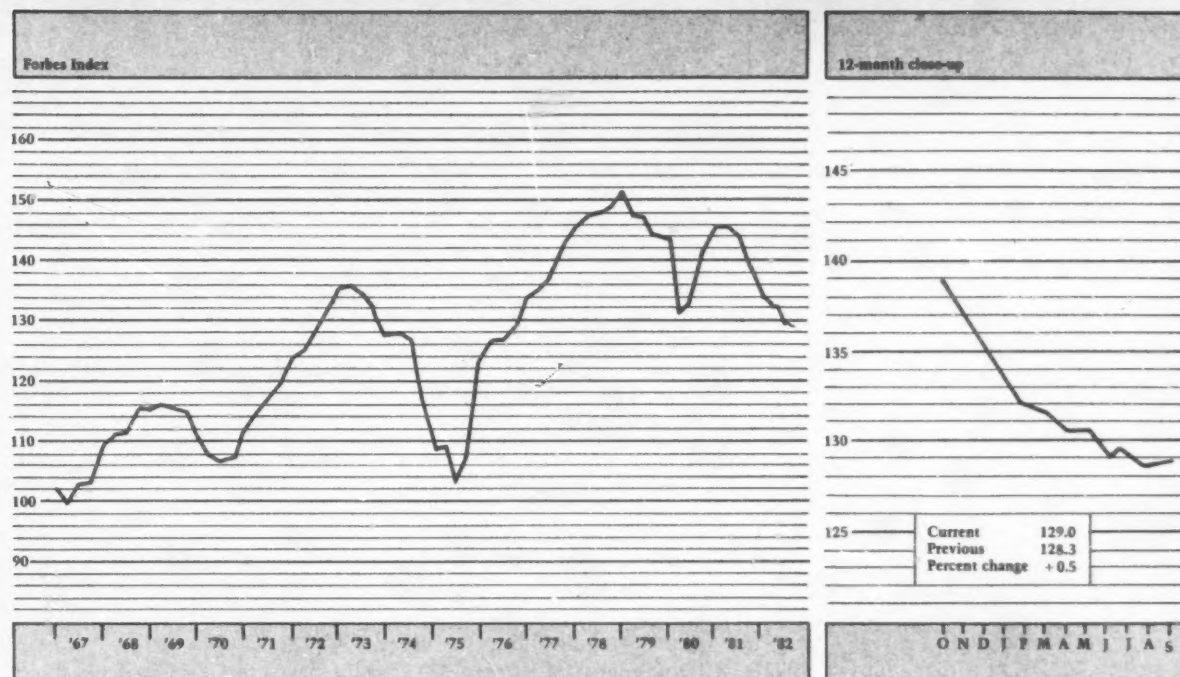
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The Forbes Index



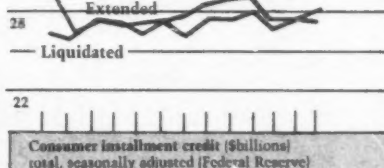
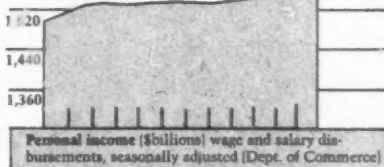
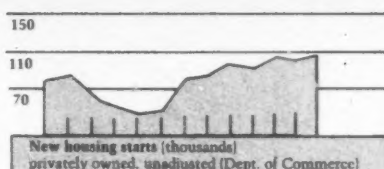
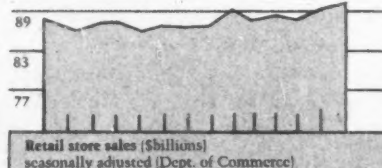
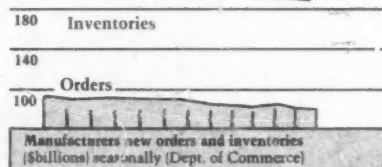
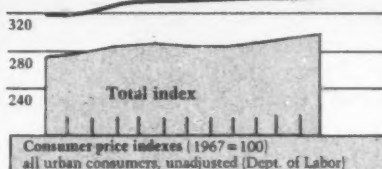
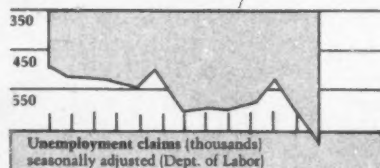
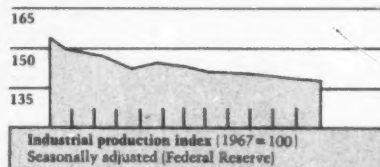
On the upswing. The Forbes Index, after having flattened out during the previous reporting period, is once again on the rise. Good news comes from consumers, who finally appear to be spending. Net credit outstanding increased by a substantial \$1.1 billion in September, compared with a much smaller \$65 million gain the previous month. Retail store sales, up 5.8%, also provided upward pressure.

Although consumers were loosening their purse strings, personal income remained steady. Similarly, manufacturers' new orders held their own. Inventories, by contrast, dipped by a slight 0.4%. However, negative revisions in unemployment claims and manufacturers' new orders for the previous month made the index look better by comparison this time around.

The Forbes Index Components

The **FORBES** Index is a measure of U.S. economic activity composed of eight equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, the change in the amount of consumer installment debt outstanding.

To measure these eight elements, **FORBES** monitors 11 series of U.S. government data. The last 14 months' data for each series is presented at right.



Locked in the contradictions of Marxism-Leninism, Andropov will have no better luck than Brezhnev in dealing with the depression and labor slowdown that are gripping the Soviet Union. Forbidding strikes only drives labor unrest underground.

Why workers won't work in the Soviet Union

WE CHILLED MOMENTARILY when a lean young man with Mongolian features glided

By Lawrence Minard
and James W. Michaels

from a doorway and moved toward us. We were alone and it was a moonless early evening in Alma-Ata, the modern, mountain-girt capital of the Soviet Republic of Kazakhstan. Who was the dim figure? A mugger? A police provocateur?

"Zbeans? Zbeans?" he hissed, and we relaxed. Just another young Soviet wanting to traffic in American blue jeans. He left quietly when we told him, "Nyet, nyet."

Both the jeans-seeker and the night-deserted streets were things we encountered constantly in the period just before Brezhnev's death. The deserted urban streets are a symbol of life under socialism.

In the fundamental economic sense the death of Brezhnev changes nothing. The Soviet economy is in deep recession and the Kremlin is too much the prisoner of its own dogma, its own bureaucracy, to remedy the situation. That's our conclusion after spending nearly a month in the Soviet Union. The country smells of depression.

Why is there no street life at night in Soviet cities? Because even in cities like Moscow there is virtually nowhere to go and nothing to do. W.C. Fields would certainly have preferred Philadelphia. There are few restaurants here and few bars, few movie houses, discos, social clubs, few private cars. The little shops and service establishments that make life interesting and convenient in Western cities are few and far between, most of them run by the state and treating customers as nuisances. The Soviet Union can, when it makes a supreme effort, build giant dams, steel mills and missile launchers. It rebuilt a shattered country twice—after the Revolution and after World War II. But it cannot provide the little amenities of civilized life, because it ruthlessly suppresses the economic vitality and spontaneity that would produce them. Here it is a serious crime to be an entrepreneur. An economy without entrepreneurs is an inefficient society. Suppose the U.S. consisted of giant businesses only?

We knew the Soviet economy was in trouble, far deeper than the economic problems of the West. What we wanted to learn was this: Can the system reform itself? What we heard and saw was not reassuring. Brezhnev's successors face an economic situation that seems beyond repair. An old joke—"They pretend to pay us and we pretend to work"—has become a national slogan. Forbidden to strike for better wages and working conditions, more cowed than its Polish counterpart, virtually the entire Soviet work force has launched a spontaneous slowdown.

There is a clear connection between the deserted streets and the disgruntled workers. The country cannot do

more for its workers because it can produce only a subsistent living standard with what is left from paying for its swollen military. A capitalist visitor thinks over and over again: What a difference a little free enterprise would make here, as it already has in socialist Hungary, as it already has in Soviet agriculture. Not only would it quickly expand the gross national product, it would also make life a lot more interesting for ordinary people.

The chief vestige of free enterprise permitted openly in the Soviet Union is the millions of private plots that provide perhaps a quarter of the food consumed by the 270 million Soviet citizens. The right to cultivate such a plot, a third or quarter of an acre, is an inducement to work on a state or cooperative farm. Either singly or through cooperatives, the farmers can sell the produce from their private plots in specially provided markets in cities, towns and villages and they can sell them at something approaching the market price—as much as four times the prices for the generally inferior food in the state stores.

Hold it, though. Free enterprise might prove contagious. So, to hold it down, a farmer must cart his private produce to market and sit there all day until it is sold. Either that or take turns selling as part of a cooperative. That way, in theory, no one lives off the fruits of another's labor. Suppose an enterprising fellow bought an old truck and went from plot to plot collecting produce, hauling it to town and selling it there. For performing such a service he would be thrown into jail. What to us is a useful service is an economic crime in the Soviet Union.

Soviet planning regards entrepreneurs and middlemen as parasites. It refuses to recognize that those who arrange and rearrange resources are as truly productive as those who work with their hands.

Thus a private shopkeeper keeping long hours and offering merchandise at fair prices would be an "exploiter," a criminal.

"Public ownership," writes Leonid Abalkin, prominent Soviet economist, "removes the antagonism of class inter-



Street scene in Moscow

After two-thirds of a century of socialism, the corruption and the dullness are the least of it.

Moscow's high cost of getting by

Even if Soviet planners keep food consumer prices artificially low, a kilogram of beef, for example, costs \$6.50 in Washington, but just \$2.94 in Moscow—if you can find it, and wait for hours in line to buy it. But the planners keep wages even lower, meaning Russians must work over twice as long to provide themselves with life's necessities. This table

converts local prices of basic goods into the working time needed to earn them, assuming these average monthly take-home wages: 171 rubles (\$238 at official exchange rates) in Moscow, \$984 in Washington, \$493 in Munich, \$787 in Paris, \$738 in London. Conclusion: A family in Moscow must have two workers, or resort to graft.

Weekly basket of consumer goods at Soviet level of consumption (four persons, March 1982)

Item	Quantity	Washington	Moscow	Munich	Paris	London
			—minutes of work time—			
Flour	1.0 kg	5	28	9	6	6
Bread	7.0 kg	112	119	189	126	175
Noodles	2.0 kg	28	68	32	22	28
Beef	1.0 kg	69	123	150	119	115
Pork	1.5 kg	63	176	150	108	117
Minced beef	1.0 kg	37	123	70	80	63
Sausages	1.0 kg	33	160	75	75	51
Cod	1.0 kg	61	47	45	118	72
Sugar	3.3 kg	30	191	33	80	36
Butter	0.5 kg	28	111	26	24	25
Margarine	2.0 kg	46	222	34	36	64
Milk	12.0 liters	72	264	84	96	108
Cheese	2.0 kg	200	370	130	118	130
Eggs, cheapest	16.0	14	99	22	23	29
Potatoes	9.0 kg	63	63	36	36	27
Cabbage	3.0 kg	27	36	21	27	30
Carrots	1.0 kg	11	19	10	7	15
Tomatoes	1.0 kg	23	62	28	25	32
Apples	1.0 kg	10	92	15	15	23
Tea	0.1 kg	10	53	10	17	5
Beer	3.0 liters	33	48	24	21	54
Gin/vodka	1.0 liter	87	646	106	153	187
Cigarettes	120	54	90	96	48	150

Hours of work time

Time weekly used by:					
Four persons	16.6	53.4	25.3	22.2	25.7
Statistically average family of 2.5 persons	16.3	46.8	20.4	19.4	22.5
Now, monthly	51.0	120.0	24.0	39.0	28.0
Costs (\$)	65.0	391.0	143.0	106.0	182.0

Months of work time

Small car	5	33	8	9	11
Medium car	8	48	12	12	18

Source: Keith Bush, Radio Liberty Research (Munich)



est stemming from the fact that some classes live off the labor of others." Public ownership carried to its logical extremes also means that there is only one legal employer: the state. It has a monopoly on hiring. "Everyone is supposed to make the same wage, otherwise one worker would be exploiting another," explains a Soviet journalist. This principle, though it is flouted in practice, still heavily influences Soviet wage policies, and helps force the necessary differentials underground in the form of perks and graft.

There is only one supplier, not only of goods but of personal services as well: the state. You take the wages the state offers and the goods it provides at the prices it decides. You have no options, or at least no legal options. This is a nation of trapped people. A few new faces in the Kremlin do nothing to change such things.

The inevitable result is cynicism, alienation—and corruption. A visitor doesn't have to ferret these things out; they are all around him.

In October in Moscow, we hired a taxi for the day from Intourist. Dismissing the driver for a late lunch, we ask him to pick us up at 3:30 in front of the National Hotel. At 3:30 no driver, 3:45 and still no driver. With great difficulty we hire another cab, and arrive at our appointment 20 minutes late.

Back at the hotel we complain about the missing taxi to the Intourist woman. The taxi didn't come back and so we wouldn't pay. Miss Intourist looked us in the eye and claimed the driver was there but we hadn't shown up. She said we were lying. So, we had to pay for two taxis.

Only later did we understand the incident. In his chilling book *USSR: The Corrupt Society*, Russian émigré Konstantin Simis describes the economics of taxi driving in Moscow. As an employee of the state's Intourist agency, a driver is paid about 180 rubles a month (\$245 at official rates, \$130 at Western bank rates). In practice, however, he doesn't get to take that home to wife and kids. To keep his car going he must bribe mechanics—who need to eat, too. To get a good shift he bribes the dispatcher. And so on until most of the 180 rubles is gone. The taxi driver works for nothing, then? Not quite. His take-home earnings come from off-the-books work. That's clearly what our driver was doing when he was supposed to be working for us.

Look at the working time requirements on page 140. They show it costs about 210 rubles a month to feed a four-person family in Moscow. The average take-home there is 171 rubles a month, about enough for three weeks' food. Yet no one is starving. In fact, the average Russian looks a trifle overweight. Well, in most cases the wife works, too. But double the average wage and you still get just enough to eat on, with a bit left over. Rent and utilities are almost free, but there are clothes to buy and a TV set (701 hours of work time) to save for. Inferior vodka costs 6 rubles a bottle now, almost a day's pay. (The good stuff isn't available to the average working stiff at any price.) For what we call "disposable income," for TVs and vodka, the ordinary citizen either does without or resorts to graft.

We're told by a friend that he's getting his Moscow apartment painted. He found a couple of men who work for the state and makes a deal with them. When will they work? On their time off, they claim. But everybody knows

that people here think nothing of sneaking away from official jobs to do private work or to stand in queues to get scarce goods. There's always a colleague to cover for you. Where will the paint come from? "I don't ask," the apartment dweller says. Of course, it will be liberated from state supplies, just as much fertilizer for private farm plots is liberated from state farm supplies.

All this in the 66th year of the Soviet state, the net result of two-thirds of a century of socialism. The corruption and dullness are not the worst of it. What is most damaging, in communism's own terms, is the inefficiency that socialism creates in industry.

In Baku, Azerbaijan, we visited the Soviet Union's only factory making window air conditioners. It is full of Japanese and even U.S. equipment, all very efficient by Soviet standards. Proudly, the director tells us he runs a fully integrated shop, making everything on the spot, including—it seems—compressors and motors.

Why does the plant require such a high degree of integration? The engineer replies that it gives them better control of quality. But of course! If he did not make his own components he would have to take what the planners gave him. Depending on outside suppliers in an economy where you can't shop around or reject inferior parts means losing any hope of quality control.

The cooler plant turns out 427,000 window conditioners annually on two shifts. It employs, the director says, 7,300 people. That is an incredible expenditure

of labor; about 35 man-hours per machine. We do a bit of arithmetic. If it took an equivalent number of man-hours to build window conditioners in the U.S., they would have to sell for \$1,200, about four times the actual price. Yet the Soviets price their air conditioners at only 350 rubles (about \$475 at official rates). How? By paying low wages. The Soviet people pay for their system's inefficient use of labor by accepting low wages. At typical Soviet wage rates, a Soviet worker would have to work at least eight weeks to buy the window cooler. Even allowing for much higher taxes and housing costs in the U.S., the American worker could probably buy the machine with the fruits of two weeks' work. A vicious circle: Inefficiency results in low wages which breeds further inefficiency.

"They pretend to pay us and we pretend to work." A *FORBES* reporter hangs behind during a guided tour of a bottling plant. A forklift is loading cartons into a boxcar. The reporter peers into the boxcar. Three workers are sleeping inside. Were they tired from a second job? Probably just hung over. A foreign resident of Moscow points out that many big construction cranes are operated by women, particularly in the afternoon. "Do you know why?" he asks. "Because many of the men are too drunk to trust with lethal machinery like that."

A cynical Soviet citizen teases an American acquaintance: "We have no unemployment." He adds, smirking: "We have no production, either." The Soviets say they have a labor shortage. Wrong. They have a system that is criminally wasteful of human effort.

Back in the days when Khrushchev threatened to bury us, the Soviet economy was growing at almost 10% annually. Project those figures out for 20 years or so and it was possible to imagine a near-American standard of living in the Soviet Union. First Stalin, then Khrushchev, then

Brezhnev promised a higher standard of living. None of them delivered up to the workers' expectations. Gradually, the idealism, the belief in promises dissipated. The government delivered missiles, not better food or better housing. There is nothing in sight that will enable Andropov and his cronies to do better than Brezhnev.

What's wrong with the theoretical promises of Socialist planning? By the early Seventies, when growth rates dropped in the West, they did in the Soviet Union, too. Marx and Lenin to the contrary, a planned socialist economy was not immune from business cycles. But in the Soviet Union the stagnation came at a much lower level. The Soviet 1971-75 Five-Year Plan achieved only 5.7% growth and the 1976-80 plan, just 4.4%. These, mind you, are official figures. A lot of people think there has been no growth at all since 1979. Cooking the books to hide inflation and meet quotas is quite an art here.

Remember the slogans? From each according to his ability, to each according to his need. I have seen the future and it works. Once there was reason enough for pride. During the Great Depression, when the U.S. had 25% unemployment and smokeless smokestacks, Soviet industry was humming. After WWII, often with bare hands, the Soviet Union was rebuilt from the ruins. Sputnik, in 1957, shook the complacency of the Western world. Even today the Soviet Union can claim the world's two largest dams (Sayanskaya and Krasnoyarsk in Siberia) and the highest production of steel and cement.

It is now clear, however, that the accomplishments were achieved at a cost in human suffering that not even stolid Russians could bear forever. People literally worked at the point of a gun. Life in the Soviet Union before and after the Second World War was more brutal than in the slums of Victorian England—worse than the horrors that outraged Karl Marx. In the end, Stalin may have killed as many Soviet citizens as Hitler did.

Stalin worked with cheap resources, too. The Soviet Union, then relatively undeveloped, had virgin resources in those days. No longer. Digging coal and iron and petroleum in the depths of Siberia is quite a different matter from mining it in the relatively benign climate of the Ukraine.

Moreover, Stalin's gains—and the early Khrushchev gains—were achieved with total disregard for the environment and for industrial safety. Even in the presumably model plants we saw, hardhats were nonexistent and safety goggles rare. The floors were so slippery from grease that a visitor had to watch his step at all times. As for the environment, even the quiescent Soviet press complains about what new pulp factories have done to Siberia's Lake Baikal. Cleanup costs remain to be paid.

The easy resources are gone now. The best of the human resources are funneled into the military. The pistol is no longer held at the heads of ordinary workers; the present despotism is relatively benign. If it still does not permit dissent, it does tolerate laziness and shirking.

Capital, squeezed painfully from a feeble economy, now yields tiny returns. More than \$800 billion has been poured into Soviet agriculture in the past 15 years, according to Rand Corp. Sovietologist Dr. Thane Gustafson. Yet the Soviet Union will have to import some 40 million tons of grain from the West this year, vs. 1 million tons in the early 1960s. Old-timers in Moscow say that, in many ways, the standard of living today is lower than in 1965. The slipping standard of living shows alarmingly in the demographic figures. Demography expert Murray Feshbach recently reported that life expectancy is falling in the Soviet Union; 67 years for males in 1964, it was below 62 years in 1980 and falling. American males by contrast can

expect to live to 70. (Since getting drunk is one of the few pleasures granted Soviet citizens, it is not surprising that so many of them drink themselves into early graves.) Soviet infant mortality, meanwhile, is rising. It is now about 40 per 1,000 births, nearly four times the U.S. rate and up from 23 per 1,000 a decade ago.

Acutely aware of these failings, the Soviets we met did not boast they would bury us. They were defensive. They admitted their economy was in trouble. But they blamed



*Queuing up in Red Square to visit Lenin's tomb
Bad as the present government is, all but the
youngest Soviet citizens have known worse.
Socialism will not yield easily here to a more open
economy and to a consequent better life.*

the West, especially the U.S. "You are forcing us to throw our best resources into defense," complains a Ukrainian foreign affairs expert. "You are trying to achieve military superiority and we cannot let you." He glared: "We have China at our back door and NATO at our front door and you are building strength against us in the Persian Gulf." He went on and on in this self-righteous way. We heard the same message repeatedly.

Growth has slowed in the West, too, but the interesting

year to the state ministry that oversees them. The ministry also receives information from a network of research institutions (read: corporate planning staff) that are supposed to know, say, how many tractors or tons of fertilizer are needed to produce next year's planned wheat crop. A draft plan is hammered out and submitted to the Council of Ministers. The council revises the draft and issues it to central planners Gosplan (top management). Gosplan's bureaucracy makes its revisions and then sends the plan



question is this: Why has the Soviet economy stagnated at such a low level? With 12% of the population working in agriculture, vs. 4% in the U.S., and with a pampering of agricultural labor, why can't the nation feed itself? There is an obvious explanation but the Soviets resist it. Socialism itself is to blame. Understand the system and you quickly understand why.

On the surface, planning in the Soviet Union today is similar to planning in any large bureaucratic American corporation. Every year Russian firms (read: corporate divisional line management) submit their plans for the coming

back down through the channels. In theory, at least, even workers are consulted.

At every step the firms argue with the institutes and their ministries and all the local committees that have the right to intervene; the ministries argue with the Council of Ministers; everybody argues with Gosplan. Any American corporate bureaucrat could identify with Dr. Alayev Borisovich, deputy director of the Council for Studies of the Productive Forces, which advises Gosplan, when he says: "It takes a lot of blood, nerves and energy to prepare a plan."

In U.S. business the problems are relatively simple. They cover a single business, and a business that has many options. But in the Soviet system, if anything goes wrong anywhere in the economy—the weather is bad, a bridge collapses—the entire plan is thrown off and there isn't time to draw a new one. Says Dr. Borisovich, "When the plan becomes law, you can't budge it with a bulldozer. If it loses one element, that sets off a chain reaction that distorts another element and another and another, on down the line." This is one reason why grain embargoes and the pipeline sanctions hurt the Soviet economy so much. They throw plans out of kilter.

Suppose you are the manager of a Russian tractor factory. You know that despite the plethora of economic "reforms" introduced during the last 20 years, you will ultimately be judged by how many machines you grind out. You know, if you really push, you could produce 100,000 tractors. But why risk failure? So you tell your ministry your maximum output is 50,000. Up that figure goes through the channels. Back down comes an order to produce at least 75,000. You feel better; 75,000 should be achievable.

That 75,000 tractors becomes your output target. But you need labor and raw materials to meet the target. There is no free, decentralized market on which to buy inputs; the planning process must allocate them to you, based in part on your request. You don't trust your suppliers to deliver what you really need. You don't trust your workers to show up on time, fit for work. So for inputs you lie again. You tell the ministry you need more inputs than you know you need. You won't get everything you ask for. But you might get enough to fulfill your target.

And if you don't? Every sensible factory manager has on his staff payroll *tolkachi* (expeditors). If late supplies of tires are threatening your ability to meet the plan, you dispatch your *tolkachi* (armed with cognac and rubles) to the tire factory to secure the needed tires. Or you may even get together with other managers who need certain easy-to-make inputs (screws, say, or connectors) and build a totally illegal factory. Many such exist in the Soviet Union, just as many other factories exist only on paper. There are even phantom workers—"dead souls," Konstantin Simis calls them, after Gogol. The managers do not necessarily pocket the dead souls' pay packet; frequently the money goes into a slush fund for getting around the rigidities of the planning process.

The reader smiles: Such hanky-panky isn't unknown in the U.S. But what makes such finagling especially damaging in the Soviet Union is the disinformation it creates for the planning process. In the case of the hypothetical tractor factory, the central planners do not know its true capacity or its true input requirements. Nor do they have effective means of measuring quality—something that the market takes care of in market economies. So far as Soviet planning is concerned, it's garbage in, garbage out.

In a market economy, useful information is transmitted by market prices. If OPEC creates an oil shortage, the price of oil rises, indicating that oil has become a (relatively) scarce resource. The new price signals the need to raise your product prices (if possible) or cut oil consumption.

Prices in the Soviet Union cannot play this role. There is no market to set prices; prices are set by the planners,

essentially on the basis of cost, plus something for profit, the way our military contracts have been priced.

At Alma-Ata we visit a carpet factory. It is run by a brisk and efficient woman, Klara Nijasbayeva. By American standards it is quite small, producing about 1.2 million square yards per year with 1,100 workers. Carpets are in great demand in the Soviet Union, and these seem of good quality. Nijasbayeva says she could easily sell many times the current output if she had the capital and resources. She is having trouble keeping workers, too. Any good Capitalist Tool knows the solution to her problems. Why not raise the price of carpets to what the market will bear, we ask? That way the factory derives extra money for expansion and for bidding raw material and workers away from other factories. The director shakes her head. "Nyet, nyet. That would be unfair to workers in other factories. One worker would be exploiting another." In theory no one gets exploited, but few people get carpets. Those who do manage

to get carpets probably bribed a shop employee. Meanwhile, wool and labor that might have gone to make much wanted carpets go instead to make shoddy jackets, which hang neglected and unsold in Moscow's GUM department store.

The carpet factory director volunteers another objection to operating in a free market where she might have to obtain inputs on her own. "Then other bidders might offer higher prices and I might not get the raw materials I need." Life may be hard in the Soviet Union, but at least you

The easy resources are now gone. The best of the human resources are funneled into the military. The pistol is no longer held at the heads of ordinary workers; the present despotism is relatively benign. If it still does not permit dissent, it does tolerate laziness and shirking.

don't have to worry about competition.

In such a system, there is little incentive to cut costs. If anything, you might want to increase costs. Glasgow University Professor Alec Nove, himself Russian-born, cites an example drawn from a recent *Pravda*. A compressor factory produced iron rings. A new material, capron, was made available. Capron would have increased the rings' life by a factor of 4, and cut their cost by a factor of 10. But the compressor factory's plan was expressed in gross sales. Switching to the cheaper capron would have cut its revenues by 1 million rubles. Obviously there is no incentive for innovation.

We meet a voluble French salesman in Moscow who is trying to peddle French greenhouse equipment. He is very frustrated. Yes, the state farms want his products; they are seeking ways to lengthen the short growing season for vegetables. But there is so much red tape. First the technical institutes must evaluate the product. Then the local agriculture ministry. Even if those hurdles are crossed, the Ministry of Foreign Trade may say *nyet*. It approves or disapproves payment in foreign currency.

A Westerner cannot help but notice how heavy and cumbersome many Soviet products tend to be. Locks, for example, can be enormous. Why is this so? One explanation is that quotas are frequently set in pounds or tons rather than in units, so you make your quota by building weight into the product. No wonder the Soviet Union is the world's largest steel producer. That its anemic economy requires so much steel is a sign of inefficiency rather than of strength.

Is the answer more powerful computers, bigger input-output tables, fancier linear programs run by smarter planners at the center? The Soviets hope so. A triumph of hope over experience.

One fundamental problem with central planning is that the Soviet economy now produces, according to Professor Nove, over 12 million items. The conceptual difficulties of obtaining meaningful data and writing a meaningful program of that size are mind-boggling. Indeed, the largest known Soviet program consists of 4,000 variables.

Moreover, input-output analyses must assume given technologies. They are inherently conservative. If a new technology comes along that cuts production costs for steel in half, all the input-output "proportions" (in effect, prices) change. The old program becomes meaningless. In other words, planning by input-output analysis in principle tends to discourage innovation. At a time when the West is adapting to the new age of micro-miniaturization, the Soviets are stuck in the age of blast furnaces.

Soviet economists and even Party leaders understand these problems and have for several years now been tinkering with their system. At the Oct. 26, 1981 Communist Party of the Soviet Union meeting, where the 1981-85 plan was approved, Brezhnev himself demanded a program "that establishes precise personal responsibility for every sector of work and gives individuals the necessary authority. Without all this, a program is not really a program but only an expression of good wishes." That sounds like an impressive call for economic reform. In fact it is a restatement of similar exhortations going back over 15 or 20 years.

With the so-called Liberman reforms of 1965 (many of which were reintroduced in another "reform" decree in July 1979), the Soviet leaders announced that political rhetoric was inadequate to get workers to show up, sober, on time, or get factory bosses to produce useful products efficiently. Material incentives (or, as the Russians say, "economic levers") are needed.

On paper, the 1965 and 1979 incentives look reasonable enough. There are plan achievement "indicators" that encourage quality production. Others encourage technological innovation. Depending on how the factory fulfills its various indicators, it can retain more profits with which to pay its workers better or buy better machines.

But at every stage such reforms run up against socialist dogma and bureaucratic hurdles. We talked with one of the authors of the 1965 and 1979 reforms, Professor Alexander Birman. "We need a new way of thinking," he said. "For example, we now produce more shoes than America, France and West Germany combined. We don't need more shoes. We need better shoes. But will that happen? It is not guaranteed. And why not?" He pauses, then answers his own question: "The bureaucracy. I say enterprises must be allowed to trade on the basis of mutual agreements instead of on the basis of a rigid central plan. But Gosplan uses shortages as a reason for going slow."

Birman clearly speaks for the reformers. But the reformers don't have things their own way. Dr. Borisovich, the adviser to Gosplan, the central planning agency, speaks for those who defend rigid planning: "We don't have the choice between planning and some other system. Planning comes from our system of property. If the state owns the means of production, we must plan." Good communists that they are, neither Birman nor Borisovich will concede that socialism itself is the problem.

At any rate, economic reform would probably exacer-

bate economic problems in the short term. For all its weaknesses, the Soviet economy has existed more or less stably for 60 years. Three generations of planners, politicians, managers and workers have become comfortable in it. Better the devil one knows.

For all its faults, central planning helps keep the lid on. In speaking of the Soviet Union foreigners frequently say "Russia." Officially this is a misnomer. Russia is only 1 of 15 Soviet Republics and only 1 of the 3 Soviet members of the U.N. (the others: Ukraine and Belorussia). In truth, the term Russia is no misnomer, for the Soviet Union is really the old Russian empire with a new name. Of the 12 members of the ruling Politburo, all but 2 are either Russian or Ukrainian. This is yet another reason the rulers cling to their highly centralized planning system: It helps hold the empire together and hold down separatism by granting—and withholding—patronage to non-Russians in proportion as they behave properly toward the empire.

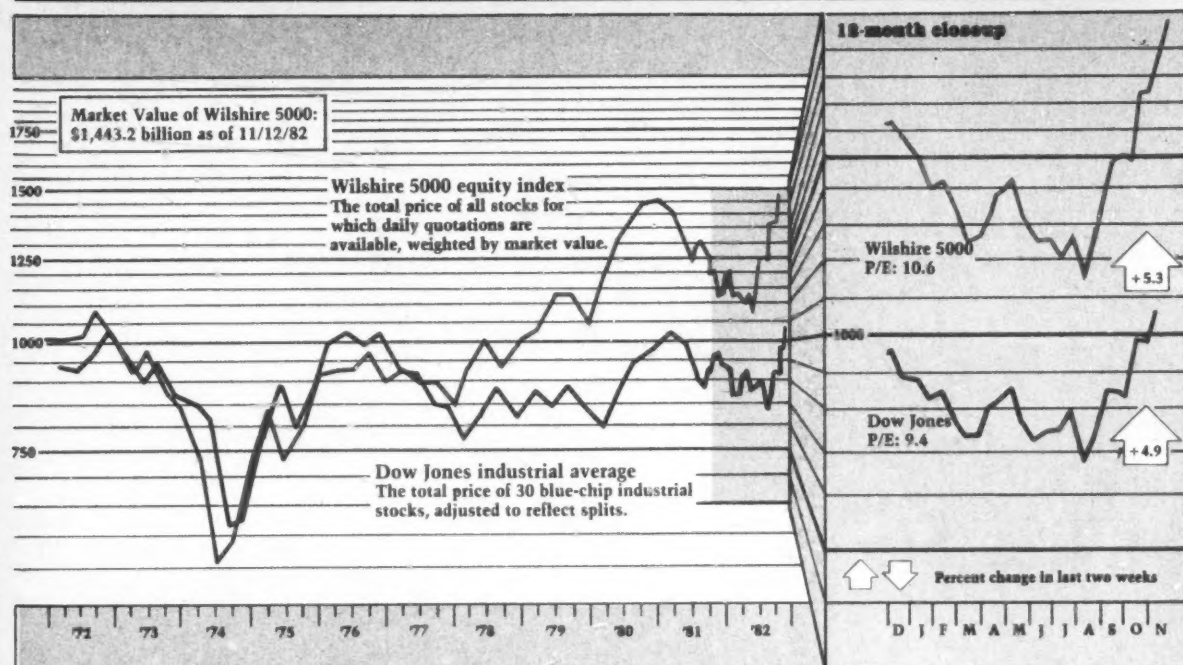
Don't forget that this is an empire ruled mainly by Russians but nearly half inhabited by non-Russians. Among the latter are 46 million Muslims, a time bomb at a time of growing Islamic militancy. Considering the ethnic and separatist tendencies simmering here, it would be unrealistic to think Moscow can afford much loosening of the economic controls that supplement the political controls. Evgeni Bugayev of the Party's theoretical publication *Kommunist* says it all: "If we allow our enterprises to buy and sell their inputs and outputs free-

ly, then the enterprises in the developed Ukraine will become rich but the enterprises in Siberia will go bankrupt." Why will they go bankrupt if they serve a useful economic purpose? That's not a question socialism can deal with.

Why do the people of this empire put up with the mismanagement that arises from such nonsense? Bayonets aside, keep one truth in mind: There are worse things than a low standard of living. Civil war and disorder, for example. The Soviet government—Moscow—has brought order to an unruly empire, a blessing that perhaps means more to Soviets than to Americans. They thus accept a militarized society more easily than we would. Moreover, if the government is despotic, it has become much more benign in its despotism in recent years and has achieved something few other despotisms in recent history have achieved: orderly succession. This seems to be happening again now that Brezhnev has passed into history. Bad as the present government is, all but the youngest Soviets have known worse. For all these reasons, socialism and rigid central planning will not yield easily here to a more open economy and to a consequent better life for the citizens.

Yet there is nothing to be gained by gloating over the sad state of Soviet society. ("A profound sadness would be more appropriate," says a sympathetic young American.) But there is a lesson to be learned: Economic planning, no matter how well intentioned, interferes inevitably with the millions of daily signals from the marketplace that can direct an economy far more efficiently than human planners can. In the end, one agrees with the great conservative economist Friedrich von Hayek. Socialism is a return to feudalism. It is not the wave of the future—not in the Soviet Union, not anywhere. ■

The Forbes/Wilshire 5000 Review



Between the buttons. The late-summer rally helped propel the Dow ahead of all major indicators, with a 21.5% 52-week gain. But over the last month the average maintained a volatile course, with frequent double-digit gains or declines on high trading volume. The Dow shows a modest four-week gain of 4.7%. Other measures of blue-chip, large-capitalization stocks—the NYSE and the Forbes 500—performed in line with the Dow.

On the other hand, the NASDAQ was up almost 14% and the Amex more than 8%; they led the rest of the market over the last month. For the two weeks, NASDAQ

and Amex issues were up 9.4% and 6.3% respectively, while the Wilshire was up 5.3% and the Dow 4.9%.

The market focus data show investor preference for the extremes of the market, with riskier speculative issues having somewhat of an edge over higher-quality securities. While the overall market, as measured by the Wilshire, is up 5.9% over the last month, high-volatility stocks gained 18.9% and high-growth stocks advanced 19.2%. On the other hand, low-volatility and low-growth stocks outperformed the market by only a small margin, as did high-yield equities.

Close-up On The Equity Markets

Performance of six leading indexes

Percent change	Wilshire 5000	Forbes 500 ¹	Dow Jones industrials	NYSE Composite	Amex Market Value index	NASDAQ Composite
in last 4 weeks	5.9	4.4	4.7	5.1	8.3	13.8
in last 52 weeks	12.9	NA	21.5	13.9	7.0	16.2

Stock performance based on five key investor yardsticks

Percent change	Volatility ²		P/E multiple		Dividend yield		Growth profile ³		Share price	
	high	low	over 25	under 5	over 7.5%	none	high	low	over \$40	under \$4
in last 4 weeks	18.9	6.2	14.4	16.1	5.1	17.5	19.2	7.8	8.8	17.1
in last 52 weeks	31.8	22.1	12.4	40.8	21.3	41.4	36.2	24.6	17.0	24.1

NA: Not available.

¹Based on sales.

²A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations, low-volatility issues are more stable.

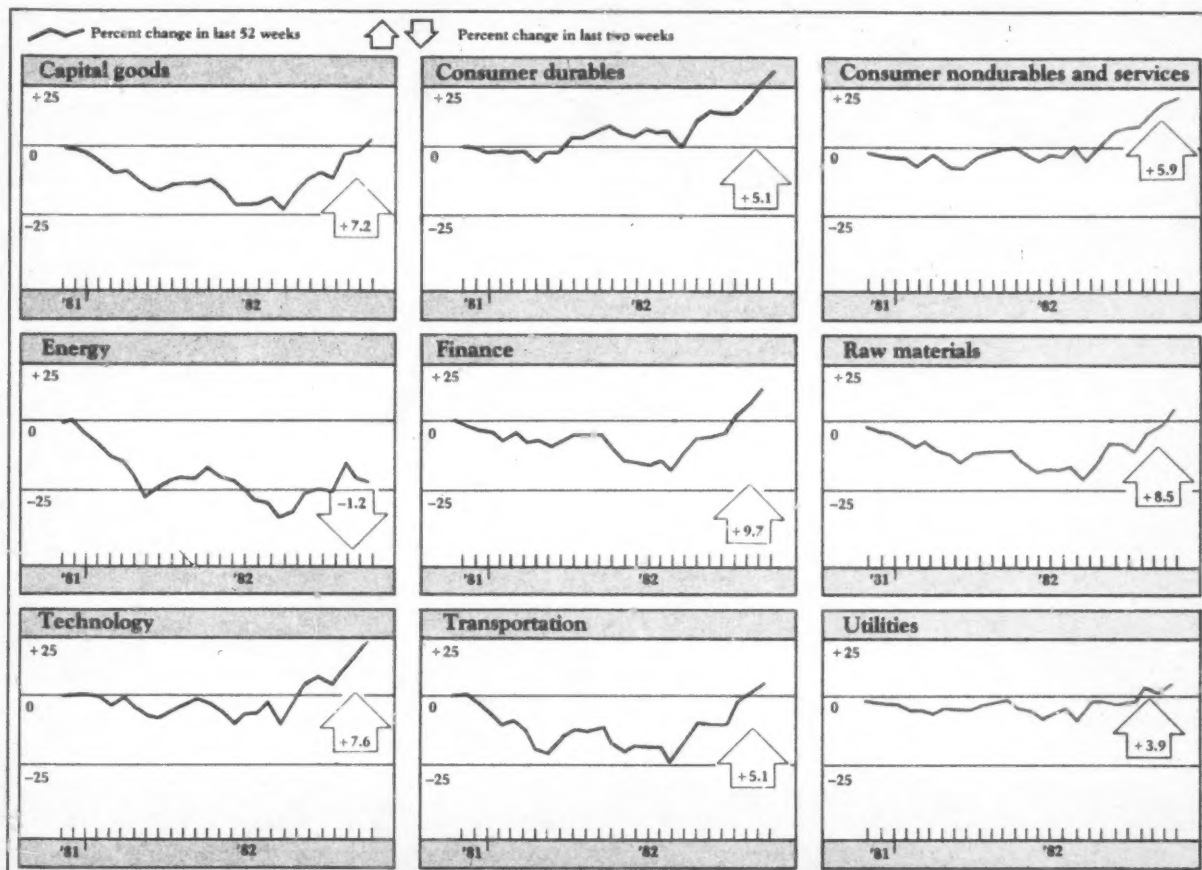
³A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

Note: All data for periods ending 11/12/82. Prepared by Wilshire Associates, Santa Monica, Calif.

Where The Action Is

Leaders and laggards. Technology issues (particularly over-the-counter) continue strong, reinforced by the trend into volatile and high-growth stocks. But investors are getting more selective. While the Wilshire is ahead 12.9% over the last 52 weeks, the consumer durables group is up 50.5%; consumer nondurables and services, ahead 35.7%.

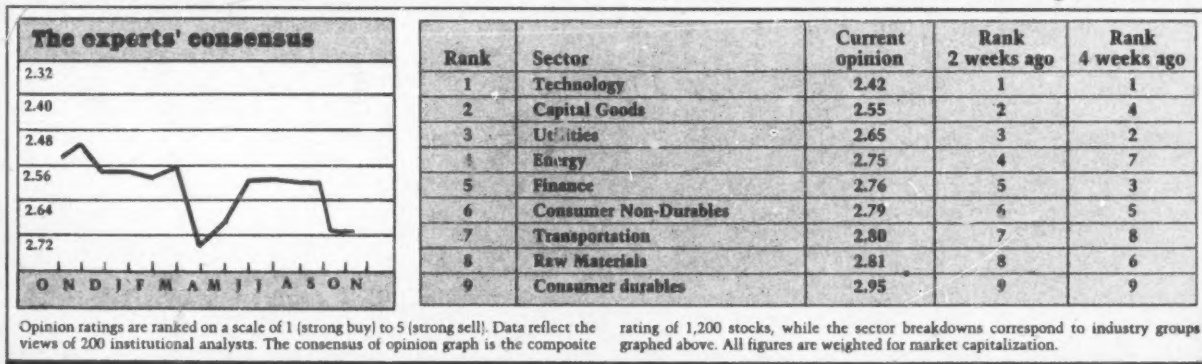
Meanwhile, raw materials and capital goods and services, which performed close to the market averages over the last year, show more strength than the market over the last two weeks. These sectors, in particular, are two areas of opportunity for investors who are willing to speculate on the prospects of a near-term economic recovery.



What The Analysts Think

Dead in the water. For the moment, analysts are making few changes in their buy-sell opinions. The consensus for all stocks and the ranking of nine business sectors is

unchanged from two weeks ago. The current opinion on technology and utilities is slightly better than the previous one, while consumer durables suffered a slight setback.



Note: All data for periods ending 11/12/82. Prepared by Wilshire Associates, Santa Monica, Calif.

*The Stock Omit Screen passed "the big test."
So we're back with another challenge.*

Round two

By Steve Kichen

LAST FALL (FORBES, Sept. 28, 1981) Tom Nourse ran his cash-flow-based Stock Omit Screen against 44 high-P/E stocks, and he came out a winner. While the NYSE gained less than 15%, the 18 issues that passed Nourse's rigid test outperformed the market by a 3-to-1 margin with an average gain of 45%. The fail portfolio gained only 21%.

The star of the pass portfolio was Wal-Mart Stores, up 148.5%. But Ashland Oil passed the screen and lost 16.2%, while Fleetwood Enterprises failed the screen and gained 215%.

Explains Nourse: "Fleetwood has been making a brilliant increase in performance over the last three years, but my screen looks at five years' worth of data. But for every Fleetwood that gets away, look at the stocks in the fail portfolio that are still far behind despite the surge in the market."

San Diego-based Nourse got into the field of stock selection through the back door. As a consultant his main interest was in cash flow and better measures of performance than inflation-distorted earnings. But after publishing his first voluminous *Comparative Business Performance Reports* he was urged by clients to apply his research and data to selecting stocks.

Nourse embarked on his quest by back-testing stock lists. He conducted an ambitious study of *Value Line Investment Survey* stocks ranked 1 for Timeliness on or about Aug. 1 each year for the period 1973 to 1981. After "holding" the stocks for a year, Nourse's pass portfolio had an average annual gain of 25.3%, vs. 13.4% for the fail portfolio.

A cornerstone of the Stock Omit Screen is a comparison of two different types of cash flow. First is the well-known earnings plus depreciation. The second, more conservative, measure is "actual" cash flow. Incremental—present year versus previous year—investment in plant, equipment, inventory and receivables is subtracted from aftertax earnings.

Another important element is Nourse's Performance Factor, which evaluates sales growth, earnings, cash flow, incremental investment and long-term debt, investment growth,

depreciation and dividends. In the following table the performance factor of each firm is compared to the average for a 1,000-firm industrial aggregate. Nourse: "A company like Mary Kay—with a performance factor of very high—has great staying power in turbulent times."

"Normalized cash flow to funds requirement" (NCFFR) measures earnings after taxes plus depreciation, divided by dividends and incremental investment. Nourse smoothes, or normalizes, this figure by making the assumption that in the long run the rate of growth in investment for each company is the same as the rate of growth in sales. Thus he can compare all firms on the same basis.

According to Nourse, the higher the NCFFR and the growth rate, the better the company. But the best companies also have good performance factors because the performance factor considers quality of earnings and the reinvestment rate. Nourse determines quality of earnings by examining such items as investment requirements, debt level and relationship of earned to accounting cash.

Nourse's industrial aggregate data show a growth rate of 13.4% and an NCFFR of 1.16 for the average company. "Normalized cash flow goes down 17.5% for every 10% increase in sales growth rate," adds Nourse. "A rapidly growing company unaware of this relationship can suddenly find itself in a severe bind."

Each company studied by Nourse is assigned into one of four "strategic positions": Invest, Protect, Maintain or Review. High-growth companies, with outstanding sales and above-average profit performance, typically end up in Invest. Such firms also have the highest level of reinvestment and a moderate degree of leverage.

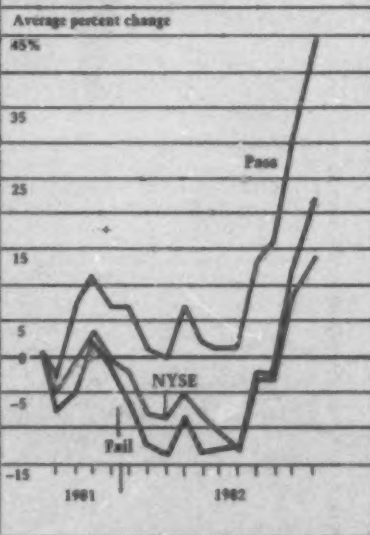
Nourse's conservative actual cash-flow measurement shows that Invest companies have negative cash flows. But many Invest companies can pass the screen because it tolerates a lower performance factor for the Invest position. Nourse notes, "History shows that Invest companies are typically the best stock performers."

A Protect company isn't reinvesting as intensely as an Invest company. But on the other hand it is not as leveraged as its cash flow is positive.

"Even though Maintain is a less desirable position, a high or significantly improving performance factor will let such a company pass the screen," notes Nourse. A Maintain

Screen tests

Companies that "pass" Tom Nourse's screening criteria do better than the averages.



Statistical Spotlight

company is reinvesting enough and showing enough actual cash flow to hold its own, but not much more.

The least desirable strategic position is Review. Review firms are using cash but not reinvesting at a suitable level and, generally, are highly leveraged. Nourse concedes that as a group Review firms are widely dis-

persed between very good and very poor market performance and he is still searching for a way to separate the two extremes. By definition, all Review firms fail Nourse's screen.

Last year we noted that Dana Corp., an Invest company that passed the screen, should be a top performer. Since that article, Dana gained 38.6%, surpassed the NYSE by a wide margin and is ranked 19th in performance among 44 issues.

Now that the economy appears disinflationary it will be interesting to see if Nourse's system—with its emphasis on cash flow rather than earnings—functions as well when earnings are not padded by inflation. This time the Stock Omit Screen is challenging a group of NYSE issues that have led the market since the start of 1982. Will the screen pick the portfolio that endures the test of time? We will be back next year. ■

Who are the winners among the winners?

These 45 issues have led the NYSE in 1982, and IBES earnings estimates indicate handsome profit gains for most in 1983. But only 10 of these stars (highlighted in blue) pass the cash-flow-based Stock Omit Screen developed by Tom Nourse. Less than half of the 45 issues

have a "normalized cash flow to funds requirement" higher than Nourse's industrial aggregate of 1.16. All issues that pass this screen have a "performance factor" of average or better. The most desirable strategic positions: Invest and Protect.

Company/business	Recent price	% change since 12/31/81	Latest 12-month P/E	Latest 12-month EPS	Estimated 1983 EPS	5-year average sales growth	Normalized cash flow to funds requirement	Performance factor	Strategic position
Coleco Industries/toys	43½	538%	12	\$3.76	\$4.76	8.7%	1.13	very low	invest
Borman's/grocery stores	8½	288	6	1.33	NA	9.4	1.54	low	invest
Vendo/vending machines	7½	253	NM	-0.21	1.00	-4.9	NM	very low	maintain
Winnebago Inds./manufactured houses	12½	240	41	0.31	0.52	-7.6	NM	very low	invest
Mary Kay Cosmetics/cosmetics	54½	227	25	2.17	2.81	39.2	0.74	very high	maintain
Chrysler/auto	10½	211	NM	-2.98	2.92	-7.0	0.20	very low	invest
Limited Inc./retail	41½	189	23	1.76	2.70	25.5	1.91	very high	invest
Telex/computer equipment	18	177	14	1.29	1.50	11.2	1.64	low	invest
Coachmen Inds./recreational vehicles	23½	176	39	0.60	2.20	-1.8	NM	very low	protect
Cole National/specialty retail	40	170	18	2.28	3.06	26.8	0.56	low	review
Payless Cashways/retail bldg materials	43½	168	25	1.71	2.27	29.0	0.61	high	invest
House of Fabrics/specialty retail	29	167	15	1.88	2.75	8.4	1.36	low	maintain
Zayre/retail	58½	145	16	3.68	5.07	9.1	1.24	very low	invest
Fleetwood Ent./manufactured houses	31½	145	28	1.13	2.26	0.5	1.95	low	protect
Foot-Cannon of America/specialty retail	28½	141	21	1.35	3.04	12.5	1.25	high	maintain
Lowe's Cos./retail bldg materials	30½	139	31	0.99	1.77	13.8	1.06	high	maintain
IFCO Corp./health care supplies	10½	139	16	0.69	0.75	-3.0	1.76	very low	invest
Orion Pictures/entertainment	16	133	NM	-5.46	NA	-5.5	0.20	very low	invest
Narco Scientific/health care supplies	33½	127	21	1.62	1.87	0.8	1.30	very low	invest
Magic Chef/appliances	20½	126	26	0.77	1.56	22.3	0.55	low	invest
Great A&P Tea/grocery stores	8½	126	NM	-5.30	1.02	-3.0	1.71	very low	invest
Walgreen's/drugstores	54½	125	15	3.73	3.90	8.3	1.41	average	protect
Oxford Ind./apparel	50	123	8	6.31	7.46	2.0	NM	very low	maintain
Cooper Tire & Rubber/tire & rubber	32½	122	7	4.30	4.98	10.4	1.30	low	invest
American Motors/auto	5½	121	NM	-3.34	0.64	2.2	0.91	very low	invest
RH Macy & Co./retail	58½	120	14	4.11	4.77	12.5	1.22	average	protect
Stop & Shop Cos./retail	48½	119	8	5.89	6.20	8.0	1.68	low	invest
Phillips-Solomon/mineral prod. inv. bldg	56½	118	12	4.72	5.63	34.1	1.75	very high	invest
American Stores/grocery stores	64½	118	9	6.80	7.76	55.4	0.49	low	review
Johnsonway/retail	18½	118	11	1.68	2.67	16.8	1.05	average	invest
Mattel/toys	23½	115	7	3.26	4.00	24.0	0.68	average	invest
Gap Stores/retail	27½	113	11	2.50	3.33	33.2	0.90	very high	review
Prime Motor Inns/hotels	25½	112	20	1.28	1.60	15.0	1.27	low	invest
Guardian Inds./building materials	30½	111	14	2.18	2.71	19.4	1.16	average	invest
Wal-Mart Stores/retail	44½	108	31	1.42	2.28	38.5	0.66	high	invest
Carling O'Keefe Ltd./brewing	8½	106	7	1.17	1.32	0.2	NM	low	protect
Kellwood/apparel	18½	106	9	2.07	3.07	5.8	1.51	very low	invest
Adams Drug/drugstores	9½	106	11	0.87	1.05	12.3	0.81	low	review
US Home/building	27½	103	NM	-0.56	1.65	18.9	0.59	low	invest
NCB/computer equipment	98	102	10	8.61	9.45	8.2	NM	low	maintain
Cordoba/publishing	15½	102	13	1.24	1.50	-16.3	1.45	average	maintain
Sega/industrial services	38½	101	11	3.48	3.82	14.4	1.28	low	invest
Dayco-Hudson/retail	60½	101	18	3.23	4.65	21.6	0.69	high	invest
General Housewares/household products	15	100	9	1.59	1.98	6.0	NM	average	protect
Cooper Lake/health care supplies	56½	100	26	2.14	3.44	19.9	0.71	average	invest

NA: Not available. NM: Not meaningful.

Sources: Nourse Associates; Wilshire Associates; Institutional Brokers Estimate System (IBES); Lynch, Jones & Ryan.